The following discussion and our analysis should be read in conjunction with our consolidated financial information included in the Accountants' Report in Appendix I, together with the accompanying notes. Our consolidated financial information have been prepared in accordance with the IFRSs.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including but not limited to the sections headed "Risk Factors" and "Business".

For the purposes of this section, unless the context otherwise requires, references to the years of 2023, 2024 and 2025 refer to the years ended December 31 of such years.

In addition, the following discussion and analysis contains certain amounts and percentage figures that have been subject to rounding adjustments, accordingly, figures shown as totals in certain tables may not be arithmetic aggregation of the figures preceding them, and all monetary amounts and percentages shown are approximate amounts only.

OVERVIEW

Founded in 1999, we are known as the first listed company in laser industry in China. Leveraging our world-leading optoelectronic information capabilities, we strive to become a global leading enabler of full-stack AI capabilities covering "sensing, transmission, cognition and application" (感傳知用).

Our business comprises three core segments:

- Optical interconnect business supported by information and communications technologies, providing high-bandwidth, low-latency core infrastructure for AI computing power construction;
- Intelligent sensing business underpinned by sensitive electronic technologies, building data acquisition and physical interaction channels for the AI world; and
- Intelligent manufacturing business enabled by laser processing and AI, delivering precision production and intelligent manufacturing solutions for the AI era.

Building on these foundations, we integrate the innovative capabilities of ecosystem partners to jointly develop industry-specific large models, industrial intelligence platform, and AI open platform, forming a complete intelligent closed loop of "sensing, transmission, cognition and application" (感傳知用): intelligent sensing business performs "sensing" by capturing physical-world data; optical interconnect business enables "transmission" with millisecond-level efficiency; industry-specific large models and our industrial intelligence and AI open platforms deliver "cognition" through deep learning, analysis and intelligent decision-making; and intelligent manufacturing business realizes "application" via execution, precision production and value creation. The three businesses operate synergistically to form a full value chain from data source to industrial application, empowering the upgrading and innovative ecosystem development of relevant industries globally.

As of December 31, 2025, through sustained technological innovation and reliable products and services, we have earned strong recognition from over 20,000 customers worldwide and widespread market acclaim, achieving a number of remarkable milestones:

During the Track Record Period, our revenue amounted to RMB10,309.7 million, RMB11,709.2 million and RMB14,354.8 million in 2023, 2024 and 2025, respectively.

BASIS OF PREPARATION

The historical financial information of our Group has been prepared in accordance with all applicable IFRS Accounting Standards which comprise all standards and interpretations approved by the International Accounting Standards Board. The historical financial information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Hong Kong Listing Rules. The historical financial information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss ("**FVPL**"), equity instruments at fair value through other comprehensive income ("**FVOCI**") and financial liabilities at FVPL, as explained in the material accounting policies set out in Appendix I.

All IFRS Accounting Standards effective for the accounting period commencing from January 1, 2025, together with the relevant transitional provisions, have been early adopted by our Group in the preparation of the historical financial information throughout the Track Record Period.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATION

The following factors are the principal factors that have affected and will continue to affect our business, financial condition, results of operations and prospects.

End-Market Dynamics and Product Applications

Our products are used in a broad range of end applications, including AI computing infrastructure, new energy, automotive manufacturing, industrial equipment, commercial aviation, home appliances and other industries. Demand for our products stems from the performance of these markets for these applications and the commercial success of our customers' products. Recent expansion in these end markets have helped driving our business growth during the Track Record Period.

Ongoing innovation in these end products increases the technical requirements for our optical interconnect business, intelligent sensing business and intelligent manufacturing business. For example, the growing popularity of AI computing is driving greater demand for AI computing power optical modules, while the rise of NEV industry has created a significant demand for our intelligent sensing business and intelligent manufacturing business. In response, we have developed advanced products to meet these needs and invested in product development and process upgrades to address these requirements. However, the timing and pace of customer demand may materially affect our revenue and margins.

Our performance is also sensitive to broader macroeconomic conditions. Changes in regional and global economic conditions and consumer spending could affect the demand for AI computing infrastructure, consumer electronics and automobiles, which would in turn impact the sales of our products from optical interconnect business, intelligent sensing business and intelligent manufacturing business.

In addition, competitive pressures may influence our revenue growth, gross margins and overall financial performance. To address these challenges, we will continue to focus on utilizing our technological capabilities, understanding customer needs and strengthening our market position to support steady growth and improve our profitability.

Our Ability to Develop, Produce and Market Technologically Advanced Products

The products that our customers require generally evolve over time along with their changing needs and technological advancement. Therefore, our ability to research and develop new products that meet these changing requirements has been and will continue to be critical to our ability to cater to the diverse needs of our customers. We have invested in multiple R&D centers responsible for product development. For example, in response to the trend of expanding demand for the optical modules in the age of AI, we engaged in enhanced development of AI computing power optical modules in recent year. Specifically, we developed 400G products in 2020 and 800G products in 2023 which both contributed significant revenue during the Track Record Period. As of December 31, 2025, our R&D team consisted of 2,698 employees, being approximately 28.5% of the workforce, with 790 employees held a master's degree or above. Our investment in R&D enables us to develop more technologically advanced and cost-competitive products. We believe investment in R&D enables us to achieve technological breakthroughs, which strengthen our competitive position as a leading global provider of optical interconnect business, intelligent sensing business and intelligent manufacturing business. Our technological capabilities enhance our ability to deliver additional value to our customers. As a result, our ability to develop, produce and market technologically advanced products leads to our ability to attract and retain customers as well as obtain orders, which in turn drives revenue growth and reinforces our market leadership.

Product Mix

Our revenue and profitability are affected by the mix of products we sell across various applications. We currently offer products from our three business segments, including optical interconnect business, intelligent sensing business and intelligent manufacturing business. Our product mix changes over time with market conditions, customer preferences and technological developments in end products that incorporate our products.

These categories carry different selling prices and margin profiles, reflecting variations in technical complexity, production processes, customer specifications, competitive intensity, raw material exposure and product positioning. For example, in 2025, our intelligent sensing business recorded a gross margin of 24.5% and our intelligent manufacturing business recorded a gross margin of 29.4%, while our optical interconnect business recorded a gross margin of 13.3% in the same period, which is below our overall gross margin due to product mix and iteration of our optical interconnect products. Among products in our optical interconnect business, AI computing power optical modules are typical high end optical modules which prices and gross margins usually are higher compared to telecom and satellite optical modules. As a result, the mix of our products sold in a given year significantly impacts our financial condition and profitability.

We aim to optimize our product mix. As we strengthen relationships with existing customers and solidify our position in target markets, we seek to increase the proportion of higher-margin products supplied to them. As such, our ability to effectively manage our product portfolio, respond to changing customer requirements or appropriately price our products is expected to continue to impact our profitability.

Customer Base

In recent years, driven by the development of AI, cloud computing, data center construction and new energy vehicles, we have actively engaged with emerging cloud service providers, new energy vehicle producers, and internet firms, in order to expand customer base, which currently cover most key market participants in China. We serve AI computing infrastructure, automotive manufacturing, home appliances, new energy, and other industries through our optical interconnect business, intelligent sensing business and intelligent manufacturing business, in which rapid product cycles require customers to launch or upgrade offerings quickly. Consequently, our customers are under pressure to introduce new products at competitive prices. In sectors such as commercial aviation and industrial equipment, where technical reliability and long-term stability are of paramount importance, customers are equally concerned with striking a balance between cost-effectiveness and technological innovation. This trend requires us to continuously upgrade our production processes to support our customers' evolving specifications and our ability to consistently deliver high-quality products on schedule directly affects our success in deepening existing relationships and securing design-ins for subsequent collaborations.

Moreover, while our production of optical interconnect business, intelligent sensing business and intelligent manufacturing business is concentrated in China, but we have also established production lines overseas to strengthen supply chain resilience. To sustain and expand our business, we will continue to meet customers' delivery and localization needs as we develop new production lines and facilities around the world.

In addition to strengthening relationships with existing customers, our performance also depends on our ability to win new customers. We seek to expand our customer base by offering solutions tailored to customized technical requirements across our product lines and by demonstrating reliable execution through qualification and ramp-up. Our ability to attract new customers is influenced by our technical capabilities, pricing and service levels, our marketing activities and the broader competitive dynamics of the global optical interconnect, sensor and laser equipment markets.

Our Ability to Maintain and Improve Operating Efficiency

Our profitability depends in part on our ability to manage costs and optimize our operating efficiency. In 2023, 2024 and 2025, we incurred selling and distribution costs of RMB482.5 million, RMB539.9 million and RMB559.9 million, representing 4.7%, 4.6% and 3.9% of our total revenue during the same years, respectively, and our administrative expenses amounted to RMB477.6 million, RMB324.3 million and RMB440.8 million, representing 4.6%, 2.8% and 3.1% of our total revenue during the same years, respectively. The decline in the percentages of our expenses as percentage of total revenue was primarily attributable to economy trend of scale and our sustained and rapid growth. In addition, we improved operational efficiency by strengthening our supply chain and implementing rigorous cost management practices. Through continuous layout over the past two decades, we have taken the lead in establishing full industrial chain control capabilities such as chips, components, modules and subsystem in the optical interconnect market. Such vertical integration layout has not only reduced reliance on external suppliers, but also formed independently controllable technological advantages in key segments. We have enhanced the management of our expenses through detailed budgeting and performance monitoring.

While we expect the absolute amounts of our manufacturing cost, selling and distribution expenses and administrative expenses will continue to increase along with our business growth in the future, we are committed to further enhancing our operational efficiency through economies of scale, optimized resource allocation, and continuous investment in employee training and development.

Our Ability to Execute Effective Sales and Marketing Strategies

Our sales and marketing strategies are key drivers of our market expansion and revenue growth. We are committed to building a global sales network and brand influence through diversified market channels, precise customer positioning, and efficient marketing initiatives. Aligned with industry trends, where the optical interconnect market is evolving toward higher speed, larger capacity and lower power consumption, the sensor market is advancing toward intellectualization and flexibility, and the laser equipment market is expanding into higher precision, efficiency and multi-functionality, we believe our continuously optimized sales system and marketing strategies will enable us to effectively address market competition challenges, and consistently enhance our market share and customer satisfaction.

Leveraging our comprehensive sales network and professional marketing team, we ensure the effective execution of sales strategies. To achieve our sales objectives smoothly, we are also continuously strengthening the construction of our sales system and improving our marketing capabilities. Our global sales network comprises numerous domestic sales offices and over ten overseas branches, forming a worldwide sales and service system. Meanwhile, we focus on providing superior customer service, and continuously improve our sales management system and marketing innovation capabilities to drive the sustained expansion of market share, the continuous enhancement of brand value, and the elevation of our market competitiveness and sustainable development capabilities.

Material Accounting Policies and Critical Accounting Estimates and Judgements

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continuously evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events which are deemed to be reasonable under the circumstances. There has not been any material deviation from our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes to these estimates and assumptions in the foreseeable future.

For details of accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgments used in the preparation of our historical financial information please refer to Note 3 to the Accountants' Report included in Appendix I to this document.

CONSOLIDATED INCOME STATEMENTS

The following table sets forth a summary of our consolidated income statements, with line items in absolute amounts and as percentages of our revenue for the periods indicated.

	Year ended December 31,					
	2023		2024		2025	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Revenue	10,309,733	100.0	11,709,175	100.0	14,354,761	100.0
Cost of sales	(7,989,206)	(77.5)	(9,186,329)	(78.5)	(11,308,666)	(78.8)
Gross profit	2,320,527	22.5	2,522,846	21.5	3,046,095	21.2
Other income	443,499	4.3	544,396	4.6	543,406	3.8
Other gains (losses), net	30,536	0.3	47,824	0.4	(26,721)	(0.2)
Selling and distribution expenses	(482,515)	(4.7)	(539,876)	(4.6)	(559,911)	(3.9)
Administrative expenses	(477,630)	(4.6)	(324,262)	(2.8)	(440,799)	(3.1)
Research and development expenses	(761,263)	(7.4)	(877,583)	(7.5)	(884,591)	(6.2)
Finance costs	(93,376)	(0.9)	(76,226)	(0.7)	(79,825)	(0.6)
Share of results of associates	130,881	1.3	(40)	(0.0)	20,769	0.1
Profit before taxation	1,110,659	10.8	1,297,079	10.9	1,618,423	11.1
Income tax expense	(107,372)	(1.0)	(93,994)	(0.8)	(163,955)	(1.1)
Profit for the year	1,003,287	9.8	1,203,085	10.1	1,454,468	10.0
Profit attributable to:						
Owners of the Company	1,007,475	9.8	1,220,749	10.3	1,470,795	10.1
Non-controlling interests	(4,188)	(0.0)	(17,664)	(0.2)	(16,327)	(0.1)
	1,003,287	9.8	1,203,085	10.1	1,454,468	10.0

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

Revenue by product or service type

During the Track Record Period, we generated revenue primarily from (i) optical interconnect business; (ii) intelligent sensing business; (iii) intelligent manufacturing business; and (iv) others. The following table sets forth a breakdown of our revenue by segment in absolute amounts and as a percentage of our total revenue for the periods indicated:

	For the years ended December 31,					
	2023		2024		2025	
	RMB'000	%	RMB'000	%	RMB'000	%
Optical Interconnect Business	3,211,924	31.2	3,974,818	33.9	6,096,823	42.4
— AI computing power optical modules	264,618	2.6	1,137,931	9.7	2,660,675	18.5
— Telecom and satellite optical modules	2,947,306	28.6	2,836,887	24.2	3,436,148	23.9
Intelligent Sensing Business	3,248,285	31.5	3,668,191	31.4	4,026,872	28.1
— Sensor products	1,193,379	11.6	1,376,276	11.8	1,558,679	10.9
— NEV thermal management systems	2,054,906	19.9	2,291,915	19.6	2,468,193	17.2
Intelligent Manufacturing Business	3,190,204	30.9	3,491,679	29.8	3,635,911	25.4
— Macro processing equipment	1,516,150	14.7	1,512,433	12.9	1,802,261	12.6
— Micro processing equipment	1,114,145	10.8	1,471,914	12.6	1,377,527	9.6
— Intelligent manufacturing solutions	559,909	5.4	507,332	4.3	456,123	3.2
Others	659,320	6.4	574,487	4.9	595,155	4.1
Total	**10,309,733**	**100.0**	**11,709,175**	**100.0**	**14,354,761**	**100.0**

Optical interconnect business. We possess industry-leading one-stop vertically integrated solutions in optical communications, with strategic R&D and large-scale manufacturing capabilities covering the full product chain from chips to components, modules and subsystems. Our products include ultra-high-speed optical modules, copper connection modules, intelligent automotive optics, and satellite communication optical modules, which are widely deployed in key sectors including AI computing power and global wireless communications. For the three years ended December 31, 2025, our revenue attributable to optical interconnect business amounted to approximately RMB3,211.9 million, RMB3,974.8 million and RMB6,096.8 million, respectively, and accounted for approximately 31.2%, 33.9% and 42.4% of our total revenue.

Intelligent sensing business. We are one of the pioneers in China to conduct R&D and industrialization of temperature sensors, multi-functional sensors and thermal management systems for NEV. Through the advancement of multiple technologies, we have maintained our global technological leadership in thermal management for NEV and a full portfolio of sensors covering temperature, pressure, and optoelectronics. For the three years ended December 31, 2025, our revenue attributable to intelligent sensing business amounted to approximately RMB3,248.3 million, RMB3,668.2 million and RMB4,026.9 million, respectively, and accounted for approximately 31.5%, 31.4% and 28.1% of our total revenue.

Intelligent manufacturing business. We are a leader in "laser equipment and intelligent manufacturing" systems in China. We have led the formulation of global industry standards for laser equipment, and have established a full industry chain covering chips, components, equipment, production lines and intelligent factory solutions. For the three years ended December 31, 2025, our revenue attributable to intelligent manufacturing business amounted to approximately RMB3,190.2 million, RMB3,491.7 million and RMB3,635.9 million, respectively, and accounted for approximately 30.9%, 29.8% and 25.4% of our total revenue.

Others. Our other business mainly includes sales of laser holographic film products, among others. For the three years ended December 31, 2025, our revenue attributable to others amounted to approximately RMB659.3 million, RMB574.5 million and RMB595.2 million, respectively, and accounted for approximately 6.4%, 4.9% and 4.1% of our total revenue.

Revenue by geographical locations

The following table sets forth our revenue breakdown by geographical location of customers, each expressed in absolute amount and as a percentage of our total revenue, for the period indicated. The geographical location of customers is determined based on the place of incorporation of the customers who place order with us.

	Year ended December 31,					
	2023		2024		2025	
	RMB'000	%	RMB'000	%	RMB'000	%
Chinese Mainland	9,209,563	89.3	10,327,714	88.2	12,344,516	86.0
Europe	370,432	3.6	519,080	4.4	373,262	2.6
North America	63,189	0.6	162,570	1.4	393,358	2.7
Southeast Asia	137,549	1.3	199,083	1.7	640,714	4.5
Others*(Note)*	529,000	5.2	500,728	4.3	602,911	4.2
Total	**10,309,733**	**100.0**	**11,709,175**	**100.0**	**14,354,761**	**100.0**

(1) Other countries and regions mainly include Australia, India and other countries.

During the Track Record Period, a significant portion of our revenue is generated from Chinese Mainland markets.

Cost of Sales

Our cost of sales of goods and services comprises (i) raw materials, which mainly include semiconductor chips, optical components, metallic materials, and other electronic components; (ii) staff cost, including salaries, bonuses and benefits for our business operation personnel; (iii) depreciation and amortization expenses; and (iv) other miscellaneous costs of sales, which include utilities, factory rental costs, among others.

The following table sets forth a breakdown of our cost of sales for the periods indicated both in absolute amount and as a percentage of our total cost of sales, for the periods indicated:

	Year ended December 31,					
	2023		2024		2025	
	RMB'000	%	RMB'000	%	RMB'000	%
Raw materials	6,910,585	86.5	8,095,240	88.1	9,911,515	87.6
Staff cost	392,101	4.9	515,126	5.6	583,235	5.2
Depreciation and amortization expenses	109,124	1.4	142,796	1.6	214,693	1.9
Others	577,396	7.2	433,167	4.7	599,223	5.3
Cost of sales	**7,989,206**	**100.0**	**9,186,329**	**100.0**	**11,308,666**	**100.0**

Gross Profit and Gross Margin

Our gross profit represents our revenue less our cost of sales. Our gross margin represents our gross profit as a percentage of our revenue. We recorded gross profits of RMB2,320.5 million, RMB2,522.8 million and RMB3,046.1 million in 2023, 2024 and 2025, respectively, with corresponding gross margins of 22.5%, 21.5% and 21.2%.

The following table sets forth a breakdown of gross profit and gross margin by product type for the periods indicated:

	Year ended December 31,					
	2023		2024		2025	
	RMB'000	Gross margin (%)	RMB'000	Gross margin (%)	RMB'000	Gross margin (%)
Optical interconnect business	333,389	10.4	334,279	8.4	808,212	13.3
Intelligent sensing business	779,374	24.0	942,744	25.7	984,897	24.5
Intelligent manufacturing business	1,004,676	31.5	1,081,282	31.0	1,069,055	29.4
Others	203,088	30.8	164,541	28.6	183,931	30.9
Total	**2,320,527**	**22.5**	**2,522,846**	**21.5**	**3,046,095**	**21.2**

Other Income

Other income and gains consist of (i) interest income; (ii) government grants, which mainly relate to non-recurring grants from local governments in Chinese Mainland for our research and development activities and operations; (iii) additional deduction of Value-Added Tax ("**VAT**"), which mainly relate to the VAT deductions we enjoyed according to the Announcement No. 43 of 2023 and the Announcement No. 25 of 2023 of the Ministry of Finance and the State Taxation Administration; (iv) other miscellaneous income, which include compensation for damaged goods.

The following table sets forth a breakdown of the components of our other income in absolute amounts for the periods indicated:

	Year ended December 31,					
	2023		2024		2025	
	RMB'000	%	RMB'000	%	RMB'000	%
Interest income	194,743	43.9	157,363	28.9	115,557	21.3
Government grants	182,953	41.3	291,862	53.6	335,030	61.7
Additional deduction of VAT	60,426	13.6	82,625	15.2	86,128	15.8
Others	5,377	1.2	12,546	2.3	6,691	1.2
Total	**443,499**	**100.0**	**544,396**	**100.0**	**543,406**	**100.0**

Other Gains (Losses), Net

Other gains (losses), net primarily consist of (i) (loss) gain on disposal of investment in associates; (ii) net fair value change of financial assets at fair value through profit or loss ("**FVPL**"); (iii) provision for impairment of inventories, net; (iv) reversal of (provision for) impairment loss on contract assets, net; and (v) (provision for) reversal of impairment for impairment loss on trade and other receivables, net.

The following table sets forth a breakdown of the components of our other gains (losses), net in absolute amounts for the periods indicated:

	Year ended December 31,					
	2023		2024		2025	
	RMB'000	%	RMB'000	%	RMB'000	%
(Loss) Gain on disposal of investment in associates	(1,409)	(4.6)	18,038	37.7	17	(0.1)
Gain on disposal of investment in subsidiaries	—	—	25,928	54.2	1,588	(5.9)
Dividend received from financial assets at FVPL	197	0.6	1,211	2.5	3,528	(13.2)
Net fair value change of financial assets at FVPL	79,619	260.7	40,667	85	28,059	(105)
Gain on disposal of financial assets at FVPL	18,841	61.7	14,910	31.2	483	(1.8)
Net fair value change of financial liabilities at FVPL	(352)	(1.2)	(273)	(0.6)	—	—
Provision for impairment of inventories, net	(28,703)	(94.0)	(50,518)	(105.6)	(80,506)	301.3
Provision for impairment loss on property, plant and equipment	—	—	(535)	(1.1)	(400)	1.5
Provision for impairment loss on intangible assets, net	—	—	—	—	(1,581)	5.9
Provision for impairment loss on goodwill	—	—	—	—	(496)	1.9
(Provision for) Reversal of impairment loss on trade and other receivables, net	(47,188)	(154.5)	(5,852)	(12.2)	21,084	(78.9)
Reversal of (Provision for) impairment loss on contract assets, net	12,041	39.4	(336)	(0.7)	736	(2.8)

	Year ended December 31,					
	2023		2024		2025	
	RMB'000	%	RMB'000	%	RMB'000	%
(Loss) Gain on disposal of property, plant and equipment	(334)	(1.1)	732	1.5	17,712	(66.3)
Gain (Loss) on early termination of leases	753	2.5	601	1.3	(393)	1.5
Gain on disposal of right-of-use assets — land use right	—	—	3,515	7.3	—	—
Fines and penalty expenses	(3,161)	(10.4)	(3,331)	(7.0)	(2,110)	7.9
Exchange gain (loss), net	3,093	10.1	3,434	7.2	(15,863)	59.4
Others	(2,861)	(9.2)	(367)	(0.7)	1,421	(5.4)
Total	**30,536**	**100.0**	**47,824**	**100.0**	**(26,721)**	**100.0**

Selling and Distribution Expenses

Our selling and distribution costs consist of (i) staff cost; (ii) travel and business development expenses; (iii) professional service expenses; (iv) promotional expenses; (v) rental expenses; (vi) office and vehicles; (vii) transportation and repairs; and (viii) other selling and marketing expenses including office expenses. Our selling and marketing expenses amounted to RMB482.5 million, RMB539.9 million and RMB559.9 million in 2023, 2024 and 2025, respectively.

The following table sets forth a breakdown of the major components of our selling and distribution costs, in absolute amounts and as percentages of our total selling and distribution costs, for the periods indicated:

	Year ended December 31,					
	2023		2024		2025	
	RMB'000	%	RMB'000	%	RMB'000	%
Staff cost	238,021	49.3	292,502	54.2	284,395	50.8
Travel and business development expenses	84,806	17.6	105,659	19.6	111,830	20.0
Professional service expenses	65,246	13.5	50,879	9.4	38,779	6.9
Promotional expenses	29,813	6.2	18,299	3.4	38,389	6.9
Rental expenses	20,571	4.3	19,967	3.7	28,045	5.0
Office and vehicles	12,985	2.7	13,256	2.5	15,456	2.8
Transportation and repairs	4,642	1.0	17,356	3.2	16,433	2.9
Others	26,431	5.4	21,958	4.0	26,584	4.7
Total	**482,515**	**100.0**	**539,876**	**100.0**	**559,911**	**100.0**

Administrative Expenses

Our administrative expenses consist of (i) staff cost; (ii) depreciation and amortization expenses; (iii) consulting and professional service fees; (iv) office expenses; (v) travel and business development expenses; (vi) rental expenses; (vii) tax and surcharges; (viii) property management fees; (ix) share-based payment; and (x) other miscellaneous administrative expenses. Our administrative expenses amounted to RMB477.6 million, RMB324.3 million and RMB440.8 million in 2023, 2024 and 2025, respectively.

The following table sets forth a breakdown of the components of our administrative expenses, in absolute amounts and as percentages of our total administrative expenses, for the periods indicated:

	Year ended December 31,					
	2023		2024		2025	
	RMB'000	%	RMB'000	%	RMB'000	%
Staff cost	264,509	55.4	98,717	30.4	186,302	42.3
Depreciation and amortization expenses	63,003	13.2	58,214	18.0	58,333	13.2
Consulting and professional service fees	7,416	1.6	14,812	4.6	18,095	4.1
Office expenses	13,005	2.7	16,505	5.1	20,440	4.6
Travel and business development expenses	13,600	2.8	15,057	4.6	17,701	4.0
Rental expenses	3,464	0.7	13,224	4.1	12,788	2.9
Tax and surcharges	51,688	10.8	53,215	16.4	62,431	14.2
Property management fees	23,890	5.0	26,263	8.1	29,533	6.7
Share-based payment	20,694	4.3	8,622	2.7	—	—
Others	16,361	3.5	19,633	6.0	35,176	8.0
Total	**477,630**	**100.0**	**324,262**	**100.0**	**440,799**	**100.0**

Research and Development Expenses

Research and development expenses consists of (i) cost of raw and auxiliary materials used in our research and development activities; (ii) staff cost relating to our R&D staff, including salaries, bonuses and benefits for our R&D employees; (iii) depreciation and amortization expenses allocated to our research and development department; (iv) equipment testing fees; and (v) other miscellaneous expenses. Our research and development expenses amounted to RMB761.3 million, RMB877.6 million and RMB884.6 million in 2023, 2024 and 2025, respectively. The following table sets forth a breakdown of the components of our research and development expenses in absolute amounts for the periods indicated:

	Year ended December 31,					
	2023		2024		2025	
	RMB'000	%	RMB'000	%	RMB'000	%
Staff cost	434,680	57.1	474,273	54.0	422,739	47.8
Cost of raw and auxiliary materials	179,535	23.6	211,548	24.1	219,424	24.8
Depreciation and amortization expenses	60,602	8.0	69,097	7.9	100,738	11.4
Equipment testing fees	25,378	3.3	41,512	4.7	47,596	5.4
Others	61,068	8.0	81,153	9.3	94,094	10.6
Total	**761,263**	**100.0**	**877,583**	**100.0**	**884,591**	**100.0**

Finance Costs

Our finance costs consist of (i) interest on interest-bearing borrowings; (ii) interest on lease liabilities; (iii) interest on note payables; and (iv) interest on discounting bills receivables. Our finance costs amounted to RMB93.4 million, RMB76.2 million and RMB79.8 million in 2023, 2024 and 2025, respectively.

The following table sets forth a breakdown of the major components of our finance costs, in absolute amounts and as percentages of our total finance costs, for the periods indicated:

	Year ended December 31,					
	2023		2024		2025	
	RMB'000	%	RMB'000	%	RMB'000	%
Interest on interest-bearing borrowings	90,923	97.4	71,260	93.5	71,377	89.4
Interest on lease liabilities	1,991	2.1	1,578	2.1	1,592	2.0
Interest on note payables	—	—	—	—	4,579	5.7
Interest on discounting bills receivables	462	0.5	3,388	4.4	2,277	2.9
Total	**93,376**	**100.0**	**76,226**	**100.0**	**79,825**	**100.0**

Income Tax Expense

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of our Group are domiciled and operates. We recorded income tax expense of RMB107.4 million, RMB94.0 million and RMB164.0 million in 2023, 2024 and 2025, respectively. As of the Latest Practicable Date, we did not have any disputes with any tax authorities.

Chinese Mainland

Our Company and certain of our PRC subsidiaries are benefiting the qualification of High and New Technology Enterprises ("**HNTE**") and was entitled to a preferential corporate income tax rate of 15% during the Track Record Period.

In September 2023, the State Taxation Administration, the Ministry of Finance, and the Ministry of Industry and Information Technology jointly announced that from January 1, 2023, to December 31, 2027, eligible advanced manufacturing enterprises are permitted to apply an additional 5% deduction to their deductible input value-added tax (VAT) credits against the payable VAT amount. Concurrently, from January 1, 2023, to December 31, 2027, machine tool enterprises are allowed to apply an additional 15% deduction to their current deductible input VAT credits for offsetting the payable VAT. Certain subsidiaries of our company have availed themselves of the aforementioned tax incentives in accordance with the regulations in 2024.

In addition, certain subsidiaries of our Group have applied the Small-Scaled Minimal Profit Corporate Income Tax Preferential Policy announced by the PRC's State Administration of Taxation.

Outside Chinese Mainland

Our subsidiary HG-FARLEY LASERLAB CO. PTY LTD is subject to a corporate income tax rate of 25% during the Track Record Period. Our U.S. subsidiaries HG Surmount International Corporation, HGLASER CO., LTD, and Genuine USA Co., Ltd. (formerly known as HG GENUINE USA CO., LTD) are subject to income tax rates ranging from 15% to 39% based on their taxable income. Our subsidiary Huazheng International Trade Company Limited is subject to income tax rates ranging from 8.25% to 16.5% depending on taxable income. Our subsidiary HG Laser Korea Co., Ltd. is subject to income tax rates between 9% to 24% based on taxable income. Our subsidiaries HG Laser Vietnam Co., Ltd., HG Gory Electronics (Thailand) Co., Ltd., HG Xingyao Technology (Vietnam) Co., Ltd., and Rayney Technology (Thailand) Co., Ltd. are subject to a 20% income tax rate depending on taxable income. Our subsidiary HG Laser Hungary Co., Ltd. is subject to a 9% income tax rate based on taxable income.

Profit for the Year

As a result of the foregoing, we recorded profit of RMB1,003.3 million, RMB1,203.1 million and RMB1,454.5 million in 2023, 2024 and 2025, respectively.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2025 Compared to Year Ended December 31, 2024

Revenue

Our total revenue increased by 22.6% from RMB11,709.2 million in 2024 to RMB14,354.8 million in 2025, primarily because (i) revenue from optical interconnect business increased by 53.4% increase from RMB3,974.8 million in 2024 to RMB6,096.8 million in 2025; (ii) revenue from intelligent sensing business increased by 9.8% from RMB3,668.2 million in 2024 to RMB4,026.9 million in 2025; and (iii) revenue from intelligent manufacturing business increased by 4.1% from RMB3,491.7 million in 2024 to RMB3,635.9 million in 2025.

Revenue from optical interconnect business increased by 53.4% from RMB3,974.8 million in 2024 to RMB6,096.8 million in 2025, primarily due to (i) surging AI demand and mass delivery of optical modules to leading market participants in China, (ii) sustained R&D which boosted our development and launch of new products and (iii) accelerated global expansion with increased overseas revenue share.

Revenue from intelligent sensing business increased by 9.8% from RMB3,668.2 million in 2024 to RMB4,026.9 million in 2025, primarily due to (i) rapid expansion of NEV thermal management systems servicing NEV market; (ii) significant growth from temperature sensors sustained by market demand.

Revenue from intelligent manufacturing business increased by 4.1% from RMB3,491.7 million in 2024 to RMB3,635.9 million in 2025, primarily due to growing market demand from the NEV, shipbuilding, 3C and semiconductor industries.

Cost of Sales

Our cost of sales increased by 23.1% from RMB9,186.3 million in 2024 to RMB11,308.7 million in 2025, mainly due to the increase in cost of raw materials which was in line with the increase in sales.

Gross Profit and Gross Profit Margins

As a result of the foregoing, our gross profit increased from RMB2,522.8 million in 2024 to RMB3,046.1 million in 2025. Our overall gross profit margin remained stable at 21.5% in 2024 and 21.2% in 2025.

Our gross profit margin for optical interconnect business increased from 8.4% in 2024 to 13.3% in 2025, primarily we benefited from high end optical modules contributing to greater portion of our revenue.

Our gross profit margin for intelligent sensing business remained stable at 25.7% in 2024 and 24.5% in 2025.

Our gross profit margin for intelligent sensing business slightly decreased from 31.0% in 2024 to 29.4% in 2025, primarily as we entered into strategic agreements with new energy vehicle customers in order to expand our market share which resulted in a price reduction.

Other Income

Our other income and gains remained relatively stable at RMB544.4 million in 2024 and RMB543.4 million in 2025.

Other Gains (Losses), Net

We record other gains of RMB47.8 million in 2024 and other losses of RMB26.7 million in 2025. The turnaround from net gains to net losses was primarily attributable to (i) the increase in provision for impairment of inventories from RMB50.5 million in 2024 to RMB80.5 million in 2025; (ii) the decrease in net fair value change of financial assets at FVPL from RMB40.7 million in 2024 to RMB28.1 million in 2025; (iii) the turnaround in net exchange gain from a net gain of RMB3.4 million in 2024 to a net loss of RMB15.9 million in 2025; and (iv) the decrease in gain on disposal of investment in subsidiaries from RMB25.9 million in 2024 to RMB1.6 million in 2025, though the adverse impact was partially offset by (i) the turnaround in provision for impairment loss on trade and other receivable from net loss of RMB5.9 million in 2024 to net gain of RMB21.1 million in 2025; and (ii) the increase in gain on disposal of property, plant and equipment from RMB0.7 million in 2024 to RMB17.7 million in 2025.

Selling and Distribution Costs

Our selling and distribution costs increased by 3.7% from RMB539.9 million in 2024 to RMB559.9 million in 2025, which is in line with our business expansion.

Administrative Expenses

Our administrative expenses increased by 35.9% from RMB324.3 million in 2024 to RMB440.8 million in 2025, primarily due to a reallocation of a special bonus in 2024, which reduced administrative expenses in 2024. Our administrative expenses returned to normal levels in 2025.

Research and Development Expenses

Our research and development expenses remained relatively stable at RMB877.6 million in 2024 and RMB884.6 million in 2025.

Finance Costs

Our finance costs increased by 4.7% from RMB76.2 million in 2024 to RMB79.8 million in 2025, primarily due to the increase in interest on note payables of RMB4.6 million in 2025.

Share of Results of Associates

We incurred loss on share of results of associates of RMB40 thousand in 2024, while we recorded a gain on share of results of associates of 20.8 million.

Income Tax Expenses

Our income tax expenses increased by 74.5% from RMB94.0 million in 2024 to RMB164.0 million in 2025, which was in line with the increase in net profit.

Profit for the Year

As a result of the foregoing, our net profit increased by 20.9% from RMB1,203.1 million in 2024 to RMB1,454.5 million in 2025.

Year Ended December 31, 2024 Compared to Year Ended December 31, 2023

Revenue

Our total revenue increased by 13.6% from RMB10,309.7 million in 2023 to RMB11,709.2 million in 2024, primarily because (i) revenue from optical interconnect business increased by 23.8% increase from RMB3,211.9 million in 2023 to RMB3,974.8 million in 2024; (ii) revenue from intelligent sensing business increased by 12.9% from RMB3,248.3 million in 2023 to RMB3,668.2 million in 2024; and (iii) revenue from intelligent manufacturing business increased by 9.5% from RMB3,190.2 million in 2023 to RMB3,491.7 million in 2024.

Revenue from optical interconnect business increased by 23.8% from RMB3,211.9 million in 2023 to RMB3,974.8 million in 2024, primarily due to (i) increased demand for high end optic modules such as our AI computing power optic modules fueled by development of AI infrastructure in China; and (ii) our successful growth in the overseas market.

Revenue from intelligent sensing business increased by 12.9% from RMB3,248.3 million in 2023 to RMB3,668.2 million in 2024, primarily due to (i) surging market demand for our NEV thermal management systems amid the rapid expansion of new energy vehicle industry and; (ii) increased market share from continuous product upgrade.

Revenue from intelligent manufacturing business increased by 9.5% from RMB3,190.2 million in 2023 to RMB3,491.7 million in 2024, primarily due to increase in revenue of micro processing driven by an increasing market demand from 3C.

Cost of Sales

Our cost of sales increased by 15.0% from RMB7,989.2 million in 2023 to RMB9,186.3 million in 2024, mainly due to the increase in cost of raw materials which was in line with the increase in revenue.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased from RMB2,320.5 million in 2023 to RMB2,522.8 million in 2024. Our overall gross profit margin slightly decreased from 22.5% in 2023 to 21.5% in 2024.

Our gross profit margin for optical interconnect business decreased from 10.4% in 2023 to 8.4% in 2024, primarily due to ramp costs of our product iteration as we focused on high end optical transceivers to meet the demand of AI computing market, as well as low selling price for certain telecom optical modules as construction demands for 5G slowed.

Our gross profit margin for intelligent sensing business increased from 24.0% in 2023 to 25.7% in 2024, primarily because we optimized our raw material supply chain which lowered the cost of sales of intelligent sensing business.

Our gross profit margin for intelligent manufacturing business remained stable at 31.5% and 2023 to 31.0% in 2024.

Other Income

Our other income and gains increased by 22.8% from RMB443.5 million in 2023 to RMB544.4 million in 2024, which was primarily attributable to (i) the increase in government grant from RMB183.0 million in 2023 to RMB291.9 million in 2024 as we received additional government grant for product upgrades and research and development, subsidies for research and development expense, and tax rebates for embedded software; and (ii) the increase in additional deduction of VAT from RMB60.4 million in 2023 to RMB82.6 million in 2024.

Other Gains, Net

Our other gains increased by 56.7% from RMB30.5 million in 2023 to RMB47.8 million in 2024, which was primarily attributable to (i) the decrease in provision of impairment loss on trade receivables from RMB47.2 million in 2023 to RMB5.9 million in 2024; (ii) the increase in gain on disposal of investment in subsidiaries from nil in 2023 to RMB25.9 million in 2024; and (iii) the turnaround from a loss on disposal of investment in associates of RMB1.4 million in 2023 to a gain of RMB18.0 million, which is partially offset by (i) the decrease in net fair value change of financial assets at FVPL from RMB79.6 million in 2023 to RMB40.7 million in 2024; and (ii) the increase in provision for impairment of inventories from RMB28.7 million in 2023 to RMB50.5 million in 2024.

Selling and Distribution Costs

Our selling and distribution costs increased by 11.9% from RMB482.5 million in 2023 to RMB539.9 million in 2024, which is in line with our business expansion.

Administrative Expenses

Our administrative expenses decreased by 32.1% from RMB477.6 million in 2023 to RMB324.3 million in 2024, primarily due to staff costs included in administrative expenses were reclassified to selling and distribution expenses and research and development expenses for approximately RMB30.6 million and RMB62.2 million, respectively, to reflect the cumulative allocation of the special bonus to the staff in the respective departments as the distribution plan for special bonus was confirmed in 2024.

Research and Development Expenses

Our research and development expenses increased by 15.3% from RMB761.3 million in 2023 to RMB877.6 million in 2024, primarily due to an increase of cost of raw and auxiliary materials to support our research and development activities.

Finance Costs

Our finance costs decreased by 18.4% from RMB93.4 million in 2023 to RMB76.2 million in 2024, primarily due to the decrease in interest on interest-bearing borrowings from RMB90.9 million in 2023 to RMB71.3 million in 2024.

Share of Results of Associates

Our share of results of associates decreased by 100.0% from a gain of RMB130.9 million in 2023 to a loss of RMB40 thousand in 2024.

Income Tax Expenses

Our income tax expenses decreased by 12.5% from RMB107.4 million in 2023 to RMB94.0 million in 2024, primarily due to utilization of previously unrecognized deductible temporary difference.

Profit for the Year

As a result of the foregoing, our net profit increased by 19.9% from RMB1,003.3 million in 2023 to RMB1,203.1 million in 2024.

DISCUSSION OF CERTAIN KEY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

	As of December 31,		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Non-current assets			
Property,plant and equipment	2,092,239	2,509,762	3,150,386
Right-of-use assets	239,201	250,683	285,515
Intangible assets	204,581	283,581	444,617
Interests in associates	562,885	520,652	644,545
Goodwill	—	496	—
Financial assets at FVPL	25,003	167,683	168,227
Equity instruments at FVOCI	5,300	5,300	5,300
Time deposits with maturity over one year	1,000,000	1,546,111	2,616,220
Prepayments	27,606	141,953	240,100
Contract assets	1,069	—	91
Deferred tax assets	167,350	189,840	214,311
Total Non-current assets	**4,325,234**	**5,616,061**	**7,769,312**

	As of December 31,		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Current assets			
Inventories	1,909,120	2,621,346	3,581,242
Trade and other receivables	4,575,384	5,867,153	5,505,539
Bills receivables at FVOCI	527,926	496,623	660,066
Contract assets	592,122	570,518	703,191
Financial assets at FVPL	125,466	106,904	135,084
Restricted bank deposits	182,076	119,569	222,309
Time deposit with maturity over three months but within one year	1,060,214	1,037,370	—
Bank balances and cash	4,214,182	4,382,584	4,336,068
Income tax recoverable	3,368	6,202	6,044
Total Current assets	**13,189,858**	**15,208,269**	**15,149,543**
Current liabilities			
Trade and bills payable	4,249,545	5,609,623	6,262,372
Other payables and accruals	511,232	709,236	449,791
Financial liabilities at FVPL	352	625	—
Interest-bearing borrowings	199,835	1,493,614	1,805,354
Note payables	—	—	1,004,579
Lease liabilities	12,664	22,412	20,724
Contract liabilities	448,003	359,550	489,430
Income tax payable	64,969	40,616	87,755
Total Current liabilities	5,486,600	8,235,676	10,120,005
Net current assets	7,703,258	6,972,593	5,029,538
Total assets less current liabilities	**12,028,492**	**12,588,654**	**12,798,850**
Non-current liabilities			
Interest-bearing borrowings	2,514,024	1,985,249	1,188,086
Lease liabilities	12,754	13,970	59,081
Provisions	23,783	26,593	40,509
Deferred tax liabilities	52,112	45,786	53,198
Deferred Income	195,887	239,348	320,862
Total Non-current liabilities	**2,798,560**	**2,310,946**	**1,661,736**
NET ASSETS	**9,229,932**	**10,277,708**	**11,137,114**

Property, Plant and Equipment

Our property, plant and equipment are comprised of (i) building; (ii) machineries; (iii) motor vehicles; (iv) other equipment; (v) leasehold improvement; and (vi) construction in progress.

The following table sets forth the key components of our property, plant and equipment as of the dates indicated:

	As of December 31,		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Buildings	1,219,227	1,221,928	1,439,838
Machineries	631,836	896,787	1,217,061
Motor vehicles	7,570	8,799	12,002
Other equipment	135,429	144,629	134,897
Leasehold improvement	39,420	69,241	100,052
Construction in progress	58,757	168,378	246,536
Total	**2,092,239**	**2,509,762**	**3,150,386**

Our property, plant and equipment increased from RMB2,092.2 million as of December 31, 2023 to RMB3,150.4 million as of December 31, 2025, primarily due to the construction of new industrial parks and the expansion of production lines.

Right-of-use Assets

Our right-of-use assets are comprised of (i) leased buildings; and (ii) land use rights.

The following table sets forth the key components of our right-of-use assets as of the dates indicated:

	As of December 31,		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Leased buildings	24,244	36,524	76,373
Land use rights	214,957	214,159	209,142
Total	**239,201**	**250,683**	**285,515**

Our right-of-use assets increased from RMB239.2 million as of December 31, 2023 to RMB250.7 million as of December 31, 2024, and further increased to RMB285.5 million in 2025, primarily due to the addition of new lease agreements for factory to support our business operations, which partially offset the impact of depreciation.

Intangible Assets

Our intangible assets are comprised of (i) development costs; (ii) patent related technologies; (iii) non-patent related technologies; and (iv) software.

The following table sets forth the key components of our intangible assets as of the dates indicated:

	As of December 31,		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Development costs	33,111	90,096	167,124
Patent related technologies	47,465	70,582	98,063
Non-patent related technologies	101,665	87,126	119,025
Software	22,340	35,777	60,405
Total	**204,581**	**283,581**	**444,617**

Our intangible assets increased from RMB204.6 million as of December 31, 2023 to RMB283.6 million as of December 31, 2024, primarily due to our continued investment in research and development. Such increase was mainly attributable to (i) an increase in development costs from RMB33.1 million as of December 31, 2023 to RMB90.1 million as of December 31, 2024; (ii) an increase in patent related technologies from RMB47.5 million as of December 31, 2023 to RMB70.6 million as of December 31, 2024; and (iii) an increase in software from RMB22.3 million as of December 31, 2023 to RMB35.8 million as of December 31, 2024.

Our intangible assets increased from RMB283.6 million as of December 31, 2024 to RMB444.6 million as of December 31, 2025, primarily due to our continued investment in research and development. Such increase was mainly attributable to (i) an increase in development costs from RMB90.1 million as of December 31, 2024 to RMB167.1 million as of December 31, 2025; (ii) an increase in non-patent related technologies from RMB87.1 million as of December 31, 2024 to RMB119.0 million as of December 31, 2025; and (iii) an increase in software from RMB35.8 million as of December 31, 2024 to RMB60.4 million as of December 31, 2025.

Interests in Associates

Our interests in associates decreased from RMB562.9 million as of December 31, 2023 to RMB520.7 million as of December 31, 2024. Our interests in associate increased from RMB520.7 million as of December 31, 2024 to RMB644.5 million as of December 31, 2025, primarily due to as we invested in new associates including Wuhan Ruiyuan Hairun Venture Capital Fund Partnership, Huagong Future (Wuhan) Venture Capital Investment Partnership and Wuhan Huagong Ruiyuan No. 2 Venture Capital Investment Fund Partnership.

Financial Assets at FVPL

As of December 31, 2023, 2024 and 2025, our financial assets at FVPL amounted to RMB150.5 million, RMB274.6 million and RMB303.3 million, respectively.

The following table sets forth the key components of our financial assets at FVPL as of the dates indicated:

	As of December 31,		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Listed in the PRC	18,935	372	438
Unlisted in the PRC	131,534	274,215	302,873
Total	**150,469**	**274,587**	**303,311**

Our financial assets at FVPL increased from RMB150.5 million as of December 31, 2023 to RMB274.6 million as of December 31, 2024, and further increased to RMB303.3 million as of December 31, 2025, primarily because we increased investment and the fair value of our investment also increased.

Equity Instrument at FVOCI

Our equity instrument at FVOCI remained stable at RMB5.3 million as of December 31, 2023, 2024 and 2025.

Prepayments

Our prepayments consist of (i) deposits paid for acquisition of property, plant and equipment; (ii) prepayment for project investment and (iv) other prepayment.

The following table sets forth the key components of our prepayments as of the dates indicated.

	As of December 31,		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Deposits paid for acquisition of property, plant and equipment	14,042	131,563	226,220
Prepayment for project investment	11,434	9,434	9,434
Other prepayment	2,130	956	4,446
Total	**27,606**	**141,953**	**240,100**

Our prepayment increased from RMB27.6 million as of December 31, 2023 to RMB142.0 million as of December 31, 2024, and further increased to RMB240.1 million as of December 31, 2025, primarily due to equipment and construction prepayments related to new industrial parks and production lines over the past three years.

Contract Assets

Contract assets primarily represent our right to consideration in respect of intelligent manufacturing products delivered to customers. When such right becomes unconditional, contract assets are reclassified to trade receivables.

We recorded total contract assets of RMB593.2 million, RMB570.5 million and RMB703.3 million in our non-current assets and current assets as of December 31, 2023, 2024 and 2025, respectively.

Deferred Tax Assets

Our deferred tax assets increased from RMB167.4 million as of December 31, 2023 to RMB189.8 million as of December 31, 2024, and further increased to RMB214.3 million as of December 31, 2025, primarily arising from a temporary deductible difference between accounting and tax treatments.

Inventories

Our inventories comprise of (i) raw materials; (ii) work in progress; and (iii) finished goods. The value of our inventories accounted for 14.5%, 17.2% and 23.6% of our total current assets as of December 31, 2023, 2024 and 2025, respectively.

The following table sets forth the key components of our inventories as of the dates indicated:

	As of December 31,		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Raw materials	713,806	963,519	1,176,786
Work in progress	399,385	557,474	880,009
Finished goods	895,222	1,226,824	1,700,549
	2,008,413	2,747,817	3,757,344
Less: provision for impairment losses on inventories	(99,293)	(126,471)	(176,102)
Total	**1,909,120**	**2,621,346**	**3,581,242**

Our inventories increased from RMB1,909.1 million as of December 31, 2023 to RMB2,621.3 million as of December 31, 2024, to meet customer demands, and further to RMB3,581.2 million as of December 31, 2025, primarily due to surging customer demands.

We believe maintaining appropriate levels of inventories dynamically helps us fully address our customers' demand and achieve customer satisfaction without adversely affecting our liquidity. We have in place a set of policies and procedures to manage our inventories. For details, see "Business — Logistics and Inventory Management".

The following table sets forth an aging analysis of our inventories as of the dates indicated:

	As of December 31,		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Within 1 year	1,738,125	2,342,542	3,299,564
1 to 2 years	143,484	234,834	251,131
2 to 3 years	20,309	40,917	29,440
Over 3 years	7,202	3,053	1,107
Total	1,909,120	2,621,346	3,581,242

As of February 28, 2026, RMB1,700.4 million, or 47.5% of our inventories as of December 31, 2025, had been used, consumed or sold subsequent to December 31, 2025.

The following table sets forth our inventory turnover days for the years indicated.

	Year ended December 31,		
	2023	2024	2025
Inventory turnover days(1)	98.4	90.0	100.1

Note:

(1) Calculated based on the average balance of inventory (after allowance) divided by the cost of sales for the relevant year multiplied by 365 days for the year. Average balance of inventory is calculated as the sum of the beginning balance and ending balance for the relevant year divided by two.

The inventory turnover days decreased from 98.4 days in 2023 to 90.0 days in 2024. The inventory turnover days subsequently increased to 100.1 days in 2025 mainly due to the increase in inventories to meeting surging customer demands.

Inventories are stated at the lower of cost and net realizable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Our Directors believe that our inventory allowance policy is in compliance with the IFRSs and that the inventory allowance recognized during the Track Record Period were adequate.

Trade and Other Receivables

Our trade and other receivables comprised of (i) trade receivables; (ii) bills receivables; and (iii) other receivables and prepayments. As of December 31, 2023, 2024, and 2025, our trade and other receivables amounted to RMB4,575.4 million, RMB5,867.2 million and RMB5,505.5 million, respectively.

The following table sets forth the key components of our trade and other receivables as of the dates indicated:

	As of December 31,		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Trade receivables			
— From third parties	4,130,948	5,295,411	4,702,877
— From related companies	10,611	16,956	9,622
Less: loss allowance	(383,984)	(387,294)	(349,217)
	3,757,575	4,925,073	4,363,282
Bills receivables			
— Discounted bank acceptance bills	38,185	—	150,000
— Commercial acceptance bills	63,621	80,578	7,059
— Bank acceptance bills	65,745	95,287	75,777
Less: loss allowance	(335)	(450)	(1,782)
	167,216	175,415	231,054
Other receivables and prepayments			
— Deposits paid to suppliers	488,982	499,176	447,528
— Other deposits and receivables	30,136	35,386	39,941
— Consideration receivables	11,291	—	—
— Other prepayments	49,964	31,227	103,500
— Cash advances to staff	39,900	35,455	42,893
— Government grant receivables	6,000	1,295	17,786
— Amounts due from related parties	4,559	3,818	—
— Receivables relating to litigation	32,819	32,819	32,819
— VAT recoverable	49,227	189,613	287,933
— Other tax receivables	1,662	210	200
Less: loss allowance	(63,947)	(62,334)	(61,397)
	650,593	766,665	911,203
Total	**4,575,384**	**5,867,153**	**5,505,539**

Trade Receivables

Our trade receivables represent outstanding amounts due from our customers from our products and services performed in the ordinary course of business. A trade receivable is recorded when we have an unconditional right to receive consideration. Trade receivables increased from RMB3,757.6 million as of December 31, 2023 to RMB4,925.1 million as of December 31, 2024, which is line with our growth in revenue.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated:

	As of December 31,		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Within 1 year	3,421,623	4,522,764	3,898,286
1 to 2 years	270,704	329,436	374,037
2 to 3 years	49,678	57,965	65,657
Over 3 years	15,570	14,908	25,302
Total	**3,757,575**	**4,925,073**	**4,363,282**

The following table sets forth the turnover days of our trade receivables for the periods indicated:

	Year ended December 31,		
	2023	2024	2025
Trade receivables turnover days[1]	130.8	135.3	118.1

Note:

(1) Trade receivables turnover days are calculated based on the average of the beginning and ending trade receivables balances, divided by total revenue for that year, multiplied by 365 days.

The turnover days of our trade receivables remained stable at 130.8 days in 2023 and 135.3 days in 2024. The trade receivable turnover days subsequently decreased to 118.1 days in 2025 primarily due to increased sale of optical modules, which typically has shorter credit term, contributed higher proportion of our revenue.

As of February 28, 2026, RMB2,510.2 million, or 54.6% of our trade and bills receivables as of December 31, 2025 had been settled.

Bill Receivables

Our bill receivables represent bank acceptance bills and commercial acceptance bills. Bill receivables remained relatively stable at RMB167.2 million, RMB175.4 million and RMB231.1 million as of December 31, 2023, 2024 and 2025, respectively.

Other receivables and prepayments

Other receivables and prepayments increased from RMB650.6 million as of December 31, 2023 to RMB766.7 million as of December 31, 2024, and further increased to RMB911.2 million as of December 31, 2025, primarily due to the increase in our remaining deductible input VAT amount in line with the growth in procurement volume.

Trade and Bills Payables

Our trade and bills payables represent payables to our suppliers. Trade and bills payables increased from RMB4,249.5 million as of December 31, 2023 to RMB5,609.6 million as of December 31, 2024, and further increased to RMB6,262.4 million as of December 31, 2025, primarily due to the increase in procurement of raw materials to meet the surging customer demand and mitigate supply volatility.

The following table sets forth the key components of our trade payables as of the dates indicated:

	As of December 31,		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Trade payables			
— from third parties	2,519,403	3,445,877	3,746,785
— From related parties	43,998	55,852	12,427
Subtotal	**2,563,401**	**3,501,729**	**3,759,212**
Bills payables	1,686,144	2,107,894	2,503,160
Total	**4,249,545**	**5,609,623**	**6,262,372**

The following table sets forth an aging analysis of our trade payables as of the dates indicated:

	As of December 31,		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Within 1 year	2,262,834	3,212,175	3,405,345
1 to 2 years	211,148	137,173	156,757
2 to 3 years	17,171	80,033	72,471
Over 3 years	72,248	72,348	124,639
Total	**2,563,401**	**3,501,729**	**3,759,212**

The following table sets forth the turnover days of our trade payables for the periods indicated:

	Year ended December 31,		
	2023	2024	2025
Trade payables turnover days(1)	120.3	120.5	117.2

Note:

(1) Trade payables turnover days are calculated based on the average of the beginning and ending trade payables balances, divided by total cost of sales for that year, multiplied by 365 days.

The turnover days of our trade payables generally decreased from 120.3 days in 2023 to 117.2 days in 2025 because the procurement of raw materials for optical modules generally follows a prepayment settlement model, and our overall payment cycle has been effectively shortened as the proportion of revenue from the optical module business increased.

As of February 28, 2026, RMB2,899.2 million, or 46.3% of our trade and bills payables as of December 31, 2025 had been settled.

Other Payables and Accruals

Our other payables and accruals consist of (i) other tax payables; (ii) security deposits; (iii) accrued expenses and other payables; (iv) dividend payables; (v) salary payables; and (vi) amounts due to related companies, which were unsecured, interest-free and repayable on demand. As of December 31, 2023, 2024 and 2025, our other payables and accruals amounted to RMB511.2 million, RMB709.2 million and RMB449.8 million, respectively.

The following table sets forth the key components of our other payables and accrued expenses as of the dates indicated:

	As of December 31,		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Other tax payables	75,529	85,676	103,911
Security deposits	7,732	33,898	9,944
Accrued expenses and other payables	90,230	210,110	118,932
Dividend payables	172	172	172
Salary payables	331,560	378,578	214,041
Amounts due to related companies	6,009	802	2,791
Total	**511,232**	**709,236**	**449,791**

Other tax payables primarily include VAT and individual income tax among others. Other tax payables amounted to increased from RMB75.5 million as of December 31, 2023 to RMB85.7 million as of December 31, 2024, and further increased to RMB103.9 million as of December 31, 2025, which is in line with our business expansion.

Security deposits represent amounts we received from suppliers as performance guarantees under contracts. Security deposits increased from RMB7.7 million as of December 31, 2023 to RMB33.9 million as of December 31, 2024, which is in line with the higher procurement activities to meet the growing customer demand. Security deposits decreased from RMB33.9 million as of December 31, 2024 to RMB9.9 million as of December 31, 2025, primarily due to the refund of bid security deposits received from suppliers.

Accrued expenses and other payables primarily include payables for employee reimbursements and other miscellaneous payables. Accruals increased from RMB90.2 million as of December 31, 2023 to RMB210.1 million as of December 31, 2024. Accrued expenses and other payables decreased from RMB210.1 million as of December 31, 2024 to RMB118.9 million as of December 31, 2025, primarily due to payment of accrued expenses.

Dividend payable remained stable at RMB0.2 million as of December 31, 2023, 2024 and 2025.

Salary payables increased from RMB331.6 million as of December 31, 2023 to RMB378.6 million as of December 31, 2024 primarily due to the increase in average salary package. Salary payable decreased from RMB378.6 million as of December 31, 2024 to RMB214.0 million as of December 31, 2025, primarily due to the payment of special bonuses accrued in prior years in 2025.

Amounts due to related companies were unsecured, interest-free and repayable on demand. Amount due to related companies decreased from RMB6.0 million as of December 31, 2023 to RMB0.8 million as of December 31, 2024, primarily because the settlement of a portion of amounts due to related companies. Amount due to related companies increased from RMB0.8 million as of December 31, 2024 to RMB2.8 million as of December 31, 2025, primarily due to the payments to seconded personnel from related companies.

Contract Liabilities

Contract liabilities represent the amounts received in advance for delivery of products. Contract liabilities decreased from RMB448.0 million as of December 31, 2023 to RMB359.6 million as of December 31, 2024, primarily due to the accelerated completion and acceptance of projects, resulting in the increase in recognition of contract liabilities as revenue. Contract liabilities increased from RMB359.6 million as of December 31, 2024 to RMB489.4 million as of December 31, 2025, primarily due to the increase of contracts to be performed driven by our business growth.

Provisions

Provisions represent management's best estimate of our Group's liability under 12 months warranties granted on certain products, based on prior experience and industry average for defective products. Provisions increased from RMB23.8 million as of December 31, 2023 to RMB26.6 million as of December 31, 2024, and further increased to RMB40.5 million as of December 31, 2025, mainly because the warranty provisions increase in line with the growth in revenue.

Deferred tax liabilities

Deferred tax liabilities represents to the taxable temporary differences arising on adjustment of fair value change on financial assets through profit & loss and distributable profits of associates. Our deferred tax liabilities decreased from RMB52.1 million as of December 31, 2023 to RMB45.8 million as of December 31, 2024, primarily due to the net effect of increase in the temporary differences arising from the fair value change on financial assets through profit or loss and decrease in the distributable profits of associates. Our deferred tax liabilities increased from RMB45.8 million as of December 31, 2024 to RMB53.2 million as of December 31, 2025 primarily due to the net effect of increase in the temporary differences arising from the fair value change on financial assets through profit or loss and decrease in the distributable profits of associates.

Deferred Income

Deferred income mainly represents government grants for capital expenditure incurred for the product enhancement and development and compensation of research and development expenses. The amounts are deferred and amortized over the estimated useful lives of the respective assets. Our deferred income increased from RMB195.9 million as of December 31, 2023 to RMB239.3 million as of December 31, 2024, and further increased to RMB320.9 million as of December 31, 2025.

RELATED-PARTY TRANSACTIONS

The following table sets forth a breakdown of our outstanding balances with related parties as of the dates indicated:

	As of December 31,		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Trade and other receivables	10,258	16,473	9,210
Prepayments	528	3,747	8
Other receivables	211	680	930
Contract assets	1,625	12,194	11,748
	12,622	**33,094**	**21,896**
Trade payables	43,998	55,852	12,427
Other payables and accruals	6,009	802	2,791
Contract liabilities	7,779	3,451	1,013
	57,786	**60,105**	**16,231**

We enter into transactions with our related parties from time to time. Our Directors believe that each of the related-party transactions set out in Note 42 in the Accountants' Report in Appendix I to this document was conducted in the ordinary course of business on an arm's-length basis between the relevant parties and was entered into on normal commercial terms. Our Directors are also of the view that our related-party transactions during the Track Record Period would not distort our track record results or make our historical results not indicative of our future performance.

INDEBTEDNESS AND CONTINGENT LIABILITIES

The following table sets forth the components of our indebtedness as of the dates indicated:

	As of December 31,			As of February 28,
	2023	2024	2025	2026
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current				
Interest-bearing borrowings	199,835	1,493,614	1,805,354	1,538,436
Note payables	—	—	1,004,579	1,007,299
Lease liabilities	12,664	22,412	20,724	24,172
Subtotal	212,499	1,516,026	2,830,657	2,569,907
Non-current				
Fixed-rate bank borrowings				
— Unsecured and unguaranteed	1,623,024	811,523	367,512	677,512
— Unsecured and guaranteed	—	118,842	—	10,200
Variable-rate bank borrowings				
— Unsecured and unguaranteed	268,000	157,832	339,669	184,180
— Unsecured and guaranteed	623,000	897,052	480,905	1,004,732
Lease liabilities	12,754	13,970	59,081	63,920
Subtotal	2,526,778	1,999,219	1,247,167	1,940,544
Total	**2,739,277**	**3,515,245**	**4,077,824**	**4,510,451**

Interest-Bearing Borrowings

Our interest-bearing borrowings represent unsecured bank loans which are primarily used for our day-to-day operations and to manage our cashflow. We recorded interest-bearing borrowings of RMB2,713.9 million, RMB3,478.9 million, RMB2,993.4 million and RMB3,415.1 million as of December 31, 2023, 2024 and 2025 and February 28, 2026, respectively. For interest rate profile of our borrowings during the Track Record Period, see Note 28 to the Accountants' Report in Appendix I to this document.

As of February 28, 2026, we had unutilized banking facilities of RMB15.7 billion. Except for incurring additional bank borrowings from time to time in the ordinary course of business, we currently have no material external debt financing plan before or shortly after the [REDACTED].

Note Payables

Our note payables represent note payables issued by our Group in 2025. We recorded note payables of nil, nil, RMB1,004.6 million and RMB1,007.3 million as of December 31, 2023, 2024 and 2025 and February 28, 2026, respectively. For principal terms of the note payables, see note 29 to the Accountants' Report in Appendix I to this document.

Lease Liabilities

Our lease liabilities represent the payment obligations on our leases in relation to our leased properties that are used mainly as our offices and facilities. Our lease liabilities increased from RMB25.4 million as of December 31, 2023 to RMB36.4 million as of December 31, 2024, and further increased to RMB79.8 million as of December 31, 2025, primarily because we entered into new lease agreements during the period.

The following table sets forth our lease liabilities as of the dates indicated:

	As of December 31,			As of February 28, 2026
	2023	2024	2025	
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current	12,664	22,412	20,724	24,172
Non-current	12,754	13,970	59,081	63,920
Total	**25,418**	**36,382**	**79,805**	**88,092**

Except as disclosed above and apart from normal trade and other payables, and due to related companies, as of February 28, 2026, being the latest practicable date for determining our indebtedness, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, hire purchase commitments, guarantees or contingent liabilities.

Since February 28, 2026 and up to the date of this document, there has not been any material change in our indebtedness and contingent liabilities, and our Directors confirm that we did not have any external financing plans as of the Latest Practicable Date. Our Directors do not foresee any potential difficulty in obtaining bank facilities should the need arise.

Contingent Liabilities

As of the Latest Practicable Date, we did not have any material contingent liabilities.

Net Current Assets

The following table sets forth selected information from our current assets and liabilities as of the dates indicated:

	As of December 31,			As of February 28, 2026
	2023	2024	2025	
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current assets				
Inventories	1,909,120	2,621,346	3,581,242	3,977,070
Trade and other receivables	4,575,384	5,867,153	5,505,539	5,709,765
Bills receivables at FVOCI	527,926	496,623	660,066	698,203
Contract assets	592,122	570,518	703,191	1,060,911
Financial assets at FVPL	125,466	106,904	135,084	134,640
Restricted bank deposits	182,076	119,569	222,309	160,977
Time deposits with maturity over three months to one year	1,060,214	1,037,370	—	—
Bank balances and cash	4,214,182	4,382,584	4,336,068	3,761,400
Income tax recoverable	3,368	6,202	6,044	16,848
Total current assets	**13,189,858**	**15,208,269**	**15,149,543**	**15,519,814**
Current liabilities				
Trade and bills payable	4,249,545	5,609,623	6,262,372	6,403,361
Other payables and accruals	511,232	709,236	449,791	243,256
Financial liabilities at FVPL	352	625	—	—
Interest-bearing borrowings	199,835	1,493,614	1,805,354	1,538,436
Note payables	—	—	1,004,579	1,007,299
Lease liabilities	12,664	22,412	20,724	24,172
Contract liabilities	448,003	359,550	489,430	573,335
Income tax payable	64,969	40,616	87,755	45,872
Total current liabilities	**5,486,600**	**8,235,676**	**10,120,005**	**9,835,731**
Net current assets	**7,703,258**	**6,972,593**	**5,029,538**	**5,684,083**

We recorded net current assets of RMB7,703.3 million, RMB6,972.6 million and RMB5,029.5 million as of December 31, 2023, 2024 and 2025, respectively.

Our net current assets increased from RMB5,029.5 million as of December 31, 2025 to RMB5,684.1 million as of February 28, 2026, primarily due to (i) increase in inventories of RMB395.8 million; (ii) increase in contract assets of RMB357.7 million; and (iii) decrease in interest-bearing borrowings of RMB266.9 million, which is partially offset by decrease in bank balances and cash of RMB574.7 million.

Our net current assets decreased from RMB6,972.6 million as of December 31, 2024 to RMB5,029.5 million as of December 31, 2025, primarily due to (i) a decease in time deposits with maturity over three months to one year of RMB1,037.4 million; (ii) an increase in note payables of RMB1,004.6 million; and (iii) an increase in trade and bills payable of RMB652.7 million, which is partially offset by an increase in inventories of RMB959.9 million.

Our net current assets decreased from RMB7,703.3 million as of December 31, 2023 to net current liabilities of RMB6,972.6 million as of December 31, 2024, primarily due to (i) an increase in interest-bearing borrowings of RMB1,293.8 million; and (ii) increase in trade and bills payable of RMB1,360.1 million, which is partially offset by (i) an increase in trade and other receivable of RMB1,291.8 million; and (ii) an increase in inventories of RMB712.2 million.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our cash requirements principally from proceeds from our business operations, bank borrowings, and shareholder equity contribution. After the [REDACTED], we intend to finance our future capital requirements through cash generated from our business operations and bank borrowings, together with the net [REDACTED] from the [REDACTED]. We do not anticipate any changes to the availability of financing to fund our operations in the future.

We had bank balances and cash of RMB4,214.2 million, RMB4,382.6 million and RMB4,336.1 million as of December 31, 2023, 2024 and 2025, respectively.

Consolidated Statements of Cash Flows

The table below sets forth the selected cash flow data from the consolidated statements of cash flows for the periods indicated.

	Year ended December 31,		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Cash generated from operations	1,501,522	960,085	1,369,757
Income tax paid	(137,679)	(148,844)	(134,660)
Net cash from operating activities	1,363,843	811,241	1,235,097
Net cash flows from/(used in) investing activities	58,790	(1,161,251)	(1,105,014)
Net cash flows (used in)/from financing activities	(447,960)	517,785	(175,541)
Net increase/(decrease) in cash and cash equivalents	974,673	167,775	(45,458)
Cash and cash equivalents at the beginning of the year	3,239,256	4,214,182	4,382,584
Effect of foreign exchange differences, net	253	627	(1,058)
Cash and cash equivalents at the end of the year	**4,214,182**	**4,382,584**	**4,336,068**

Net Cash Flows Used In Operating Activities

We derive our cash inflows from operations principally from income in respect of the sales of our products and services.

Cash used in operations reflects our loss before income tax, adjusted for (i) non-cash and non-operating items, such as depreciation and amortization and impairment allowances and (ii) the effects of changes in our working capital, such as changes in inventories, trade and bills receivables and deposits, prepayments, other receivables and other assets, and (iii) other cash items, such as interest received and PRC income tax paid.

For the year ended December 31, 2025, our net cash from operating activities amounted to RMB1,235.1 million. During this year, our operating cash inflow before working capital changes but after adjustments for non-cash income and expenses were RMB2,028.4 million. Our cash flow was further negatively affected by working capital adjustments, primarily including an increase inventories of RMB1,030.0 million.

For the year ended December 31, 2024, our net cash flow from operating activities amounted to RMB811.2 million. During this year, our operating cash inflow before working capital changes but after adjustments for non-cash income and expenses were RMB1,450.8 million. Our cash flow was further negatively affect by working capital adjustments, primarily including (i) an increase in trade and other receivable of RMB1,325.8 million; and (ii) an increase in inventories of RMB752.1 million.

For the year ended December 31, 2023, our net cash flow from operating activities amounted to RMB1,363.8 million. During this year, our operating cash inflow before working capital changes but after adjustments for non-cash income and expenses were RMB1,155.7 million. Our cash flow was positively affected by working capital adjustments, primarily including a decrease in inventories of RMB481.0 million.

See "— Discussion of Certain Key Consolidated Statements of Financial Position Items" for primary reasons relating to the underlying causes for our operating cash flow changes.

Net Cash Flows From/(Used In) in Investing Activities

Our cash used in investing activities consists primarily of (i) purchase of financial assets at FVPL; (ii) placement of time deposits; and (iii) purchase of property, plants and equipment. Our cash generated from investing activities consists primarily of proceeds from (i) dividend received from associates; (ii) proceeds from disposal of financial assets of FVPL; and (iii) proceeds from disposal of interests in associates.

For the year ended December 31, 2025, our net cash flows used in investing activities were RMB1,105.0 million, primarily attributable to purchase of property, plants and equipment of RMB998.4 million.

For the year ended December 31, 2024, our net cash flows used in investing activities were RMB1,161.3 million, primarily attributable to (i) placement of time deposits of RMB1,583.5 million; and (ii) purchase of property, plants and equipment of RMB727.1 million, which was partially offset by receipts of time deposits upon its maturity of RMB1,060.2 million.

For the year ended December 31, 2023, our net cash flows from investing activities were RMB58.8 million, primarily attributable to (i) interest received of RMB194.7 million; (ii) dividend received from associates of RMB185.2 million; and (iii) proceeds from disposal of interests in associates of RMB70.4 million, which was partially offset by (i) purchase of property, plants and equipment of RMB345.4 million; and (ii) purchase of right of use assets — land use rights of RMB102.9 million.

Net Cash Flows From/(Used In) Financing Activities

Our cash from financing activities consists primarily of (i) repayment of interest-bearing borrowing; (ii) new interest-bearing borrowings raised; (iii) proceeds from issue of note payables; (iv) dividends paid to equity shareholders of our Company; and (v) interest paid.

For the year ended December 31, 2025, our net cash flows used in financing activities were RMB175.5 million, primarily attributable to repayment of interest-bearing borrowing of RMB1,884.3 million, which was partially offset by new interest-bearing borrowings raised of RMB1,398.9 million.

For the year ended December 31, 2024, our net cash flows from financing activities were RMB517.8 million, primarily attributable to the new interest-bearing borrowings raised of RMB1,117.8 million, which was partially offset by (i) repayment of interest-bearing borrowing of RMB352.7 million; and (ii) dividends paid to equity shareholders of our Company of RMB150.8 million.

For the year ended December 31, 2023, our net cash flows used in financing activities were RMB448.0 million, primarily attributable to repayment of interest-bearing borrowing of RMB2,023.1 million, which was partially offset by new interest-bearing borrowing raised of RMB1,788.5 million.

KEY FINANCIAL RATIOS

The following table sets forth a summary of our key financial ratios for the periods indicated.

	For the year ended December 31 or as of December 31,		
	2023	2024	2025
Gross profit margin(1)	22.5%	21.5%	21.2%
Net profit margin(2)	9.7%	10.3%	10.1%
Return on equity(3)	11.4%	12.3%	13.6%
Current ratio(4)	2.4	1.8	1.5
Debt-to-asset ratio(5)	47.3%	50.6%	51.4%
Gearing ratio(6)	29.7%	34.2%	36.6%

Notes:

(1) The calculation of gross profit margin is based on gross profit for the period divided by revenue for the respective period and multiplied by 100%.

(2) The calculation of net profit margin is based on net profit for the year divided by revenue for the year and multiplied by 100%.

(3) The calculation of return on equity is based on profit for the period divided by average total equity as of the beginning and end of the period and multiplied by 100%.

(4) The calculation of current ratio is based on current assets divided by current liabilities as of period end.

(5) The calculation of debt-to-asset ratio is based on total liabilities divided by total assets as of the dates indicated and multiplied by 100%.

(6) Gearing ratio equals interest-bearing bank borrowings and lease liabilities divided by total equity multiplied by 100%.

CAPITAL EXPENDITURES

During the Track Record Period, our capital expenditures were RMB435.4 million, RMB865.3 million, and RMB1,234.1 million, respectively.

CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

Capital Commitments

As of December 31, 2023, 2024 and 2025, we did not have any significant contractual and capital commitments. During the Track Record Period, there was no material change to our indebtedness and capital commitments.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet commitments or arrangements.

FINANCIAL RISKS DISCLOSURE

Our activities expose us to a variety of financial risks, mainly including interest rate risk, foreign currency risk, equity price risk, credit risk and liquidity risk. Our overall risk management procedures focus on the unpredictability of financial markets and seek to minimize potential adverse effects on our financial performance. For a detailed discussion of our Group's financial risk, see note 43 to the Accountants' Report of Appendix I to this document.

DIVIDEND

We may distribute dividends by way of cash or by other means that we consider appropriate. During the Track Record Period, (i) on March 1, 2023, we declared final dividends of RMB100.6 million, which were paid on May 16, 2023, (ii) on March 28, 2024, we declared final dividends of RMB150.8 million, which were paid on June 12, 2024, and (iii) on April 12, 2025, we declared final dividends of RMB201.1 million, which were paid on June 20, 2025. On March 24, 2026, we declared final dividends of approximately RMB248.9 million, which will be payable on or before June 17, 2026. Pursuant to PRC laws and regulations, including the PRC Company Law (《中華人民共和國公司法》) and the No. 3 Guideline for the Supervision of Listed Companies — Cash Dividend Distribution of Listed Companies (2025 Revision) (《上市公司監管指引第3號－上市公司現金分紅(2025年修訂)》) and Articles of Association, within any three consecutive years, our distributed cumulative profits in cash shall not be less than 30% of the average distributable profits realized in the latest three years. The specific dividend ratios shall be determined by our Board according to relevant regulations and our operating conditions and shall be considered and resolved at our general meeting.

WORKING CAPITAL CONFIRMATION

Taking into account our cash and cash equivalents, operating cash flows, bank borrowings, the available bank facilities, and the estimated net [REDACTED] available to us from the [REDACTED], our Directors believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this document.

DISTRIBUTABLE RESERVES

As of December 31, 2025, we had RMB743.9 million of retained earnings of the Company available for distribution to our Shareholders.

[REDACTED] EXPENSES

The total [REDACTED] expenses borne or to be borne by us are estimated to be approximately RMB[REDACTED] million (equivalent to approximately HK$[REDACTED] million) (comprising (i) [REDACTED] commission of approximately RMB[REDACTED] million, and (ii) non-[REDACTED] related expenses of approximately RMB[REDACTED] million, which consist of fees and expenses of sponsor fee, legal advisors and reporting accountants of approximately RMB[REDACTED] million and other fees and expenses of approximately RMB[REDACTED] million), accounting for approximately [REDACTED]% of the gross [REDACTED] of the [REDACTED], assuming an [REDACTED] of HK$[REDACTED] per Share, which is the mid-point of the indicative [REDACTED] range stated in this document and assuming that the [REDACTED] and the [REDACTED] are not exercised. We expect that approximately RMB[REDACTED] million (equivalent to approximately HK$[REDACTED] million) will be charged to our consolidated statement of profit or loss and other comprehensive income as [REDACTED] expenses, and approximately RMB[REDACTED] million (equivalent to approximately HK$[REDACTED] million) will be accounted for as a deduction from equity upon the [REDACTED]. The [REDACTED] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Our Directors do not expect such [REDACTED] expenses to have a material adverse impact on our results of operation for the year ending December 31, 2026.

UNAUDITED [REDACTED] STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

For details of our unaudited [REDACTED] adjusted consolidated net tangible assets, see Appendix II to this document.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this document, there has been no material adverse change in our financial or [REDACTED] position or prospects since December 31, 2025, being the end date of our latest audited financial statements, and there has been no event since December 31, 2025 that would materially affect the information shown in the Accountants' Report set out in Appendix I.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.